

HR CLINIC

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Understanding Changes in Employee Status & Impact on Benefits

Ensuring an employee's healthcare benefits are properly managed under the Affordable Care Act (ACA) can be confusing. An employee could move from full-time to part-time or vice-versa. Benefit Administrators are expected to know how to handle each and every change in status that occurs.

At HR Workplace Services (HRWS), we often field questions about whether an employer must offer benefits based on the employee's change in status, should healthcare benefits be terminated, or what action(s) an employer is allowed to take in any number of circumstances. This HR Clinic examines and explains the rules that an employer should follow, based on specific employee status changes.

New employees who switch from PT to FT during the Initial Measurement Period

If an employee moves from a part-time position to a full-time position during their Initial Measurement Period, the employer must offer coverage to that employee no later than the first day of the 4th full month following the date that the change in status occurs. If the employee averaged at least 30 hours per week during the Initial Measurement Period, the employee must be offered coverage by the beginning of the corresponding stability period (if that date is earlier than the first day of the 4th full month following the date of the change in status). It is important to note that the employer's standard waiting period may be shorter - and that the employer may be required to offer coverage sooner than that which is required under ACA.

Ongoing employees who change from a PT to FT position

In the case where an ongoing employee moves from a part-time position to a full-time position, the status change *will not* affect the employee's status as a part-time employee for the remainder of the stability period. For that reason, the employer is not required to offer coverage to the employee immediately upon the employee's move to full-time.

Instead, coverage must be offered to the employee for the stability period *following the measurement period where the employee worked an average of 30 hours per week*. An employer can choose to be more generous than the laws require by offering healthcare to an employee moving from part-time to full-time, sooner than they must. However, if an employer would like to be more generous in such situations, *it is important that the plan provisions clearly state the eligibility requirements that will be followed in such situation*.

General rule for ongoing employees that change from FT to PT

An employee with a full-time to part-time status change, will remain healthcare benefit-qualified for the remaining portion of the current stability period. Benefits should not be cancelled in this situation until the end of the stability period (when the employee moves into the part-time role).

Also, if the employee continues to average at least 30 hours per week during the measurement period when they moved to part-time, coverage will also be required in the following stability period.

There is, however, an exception in this case.

The employer may switch to the monthly measurement method for an employee moving to part-time (starting with the first day of the 4th full month after the employee moves to a part-time position). This is allowed only if Minimum Value coverage has been offered to this employee since employment began (or within 3 full months) and through the month in which the employee moves to part-time ... And, if the employee averaged less than 30 hours per week for each of the 3 full months after the move to a part-time position.

This can be done even if the look-back measurement method is used for all other employees in the same category. Since this exception only applies if the two provisions above occur (and because moving to a monthly measurement method requires additional administrative effort), the employer can always elect to follow the general rule in such situations.

Under the ACA, there are affordability concerns that must be considered when determining how to address an employee's full-time to part-time status change. Employers can be assessed penalties under the ACA if employees are required to pay more than 9.86% (in 2019) of their income toward the lowest cost single premium plan. Keep in mind, when an employee moves to a part-time position where income decreases, coverage may no longer be considered affordable under the ACA. Further, in the event that the employee remains eligible for coverage under this rule, the employee may elect to drop it, due to a change in status from full-time to part-time (per IRS Notice 2014-55).

New hire changes from FT to PT

The ACA requires that if a newly hired employee is reasonably expected (on their first day of employment) to work full-time - the employee will generally have full-time status determined under the monthly measurement method ... until the employee completes one full standard measurement period. Because of this requirement, new employee coverage can be terminated under the monthly measurement period if the new employee does not average at least 30 hours per week during a month (as expected by employer).

Rules for rehired employees

If an employee who is rehired by a company has zero hours of service for AT LEAST 13 consecutive weeks (26 weeks for educational organizations), the rehired employee (or one who returns from a leave of absence) *will be treated as a new hire* for purposes of a coverage offer. When the employee will be offered coverage in this situation, depends on whether they are rehired into a full-time or part-time position.

An employee rehired into a variable hour, seasonal or part-time position will be put into a new look-back measurement period and the employer must track hours to determine if full-time and whether an offer of benefits is required. If the employee is rehired into a full-time position, coverage should be offered within three months or within the normal waiting period established by the plan.

If a rehired employee has zero hours of service for LESS THAN 13 consecutive weeks (26 weeks for educational organizations) the rehired employee, or individual returning from a leave of absence, will be treated as a *continuing employee*. In this case, the employee will retain their previous status, as either a full-time or part-time employee, for the remainder of the stability period observed prior to their departure. If the employee was covered under the employer's plan, the employee, upon his or her return, should be offered coverage by the 1st day of the month following the date they are rehired.

In cases where the employee had waived coverage for the stability period, *it is not required* that the employee receive a new offer of coverage when the employee is rehired or returns from a leave of absence. The employer will resume counting hours for the remaining months in the measurement period and count zero hours for the period in which the employee was absent due to termination of employment or leave of absence, unless the employee was on a special unpaid leave (i.e. FMLA), or if considered an employment break (absence of at least 4 consecutive weeks for employees of educational organizations).

An employer can also consider using the *Rule of Parity*. The Rule of Parity allows an employer to choose a period of at least 4 consecutive weeks. If the employer has an employee whose break in service exceeds the greater of 4 weeks (or greater if the employer elects a greater number of consecutive weeks) or the employee's prior term of employment, the employee may be treated as a new employee.

Parting Thoughts

Even a thorough explanation of FT and PT employee coverage policies does not always completely remove the veil of confusion. Nevertheless, better understanding generally leads to quicker resolve. And with your dedicated HRWS advisors at the ready, we hope this part of the benefits process becomes a bit more clear and easier to navigate. Keep in mind, we are always here to help.